

# 10.04 Bond Retirement

Bonds may be called or retired prior to maturity (aka, early extinguishment of debt). When this happens, the difference between the net carrying amount of the debt and the amount paid to retire the debt is reported as a gain/loss on the issuer's income statement as part of continuing operations (ASC 470). The journal entry is basically the opposite of the original issuance. The plug to balance the entry is the **gain/loss**.

Bonds Payable (face)	X	
Premium (unamortized)	X	
Loss (plug)	X	
BIC (unamortized)		X
Discount (unamortized)		X
Cash (amount to retire)		X
Gain (plug)		X

Note that if the fair value option under ASC 825 is elected, the net carrying value of the debt retired will equal the fair value of the debt at retirement. Any related gains/losses accumulated in other comprehensive income will be recognized in net income in the year of retirement.

## Bond Sinking Funds

A fund set up for the retirement of bonds. The balance is treated as a noncurrent asset until the bonds mature. Any interest or dividends earned are added to the sinking fund balance and reported as income.